

City of Long Beach

Proposed Three-Year Financial Strategic Plan

Fiscal Year 2004 Through 2006

Gerald R. Miller, Acting City Manager

January 28, 2003

City of Long Beach

Proposed Three-Year Financial Strategic Plan

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Executive Summary

The City of Long Beach is facing an extremely difficult financial situation. The simple reality is a structural budget deficit exists where ongoing expenses exceed the corresponding revenues. The City of Long Beach is not alone. Given the current National and Statewide economic situations, many State jurisdictions across the nation face similar, in some cases even worse, financial dilemmas.

The structural deficit is not a new situation. The City has operated with a structural gap for the past 15 years. What is new is that resources used to bridge previous gaps, namely discretionary reserves and one-time funding sources, can no longer support the growing deficit. The deficit has grown significantly in recent years due to a rapid increase in the number and costs of new programs, new capital debt, inflation, wage and benefit cost increases, and the loss of revenue due to the voter-approved Utility Users Tax cut. It took several years to get to this point, and it will take a number of years to balance ongoing expenses and revenues again.

The immediate challenge will be to downsize the organization in a balanced and gradual way, without severely impacting essential services to the public. The City of Long Beach has taken proactive steps toward this end. Through Long Beach Plan activities, including the recent Budget Evaluation Process (BEP), the City has reviewed its strategic goals, services and programs to define areas where the City can redefine the way it does business, and focus its limited resources where they are most needed. The guiding principles of BEP uphold the best interests of the community first and foremost, putting everything on the table for consideration and evaluation. Furthermore, the strategies recommended within this Proposed Three-Year Financial Strategic Plan (Plan) are predicated largely on cost reductions and do not rely heavily on new taxes or fees, nor the use of emergency budget reserves.

Assisting City staff in identifying its service priorities was the "Voice Your Choice" community survey. The results of this community input process have served as the guiding force for the development of a rational, deliberate strategy to rightsizing the scope of City services.

In response to community and employee input, the Acting City Manager has developed the Plan, which is a balanced approach to mitigating the City's structural deficit. The Plan specifies the impacts of the City Council's Fiscal Year (FY) 03 budget decisions. It also recommends cost reductions and potential revenue generation ideas to bridge the gap between expenditures and revenues over the next three fiscal years (FY 04 through FY 06). These options effectively provide the City Council with the means of substantially reducing the City's structural deficit, while maintaining, to the extent possible, the integrity of the community's service priorities. The final Plan will also identify further potential reductions and revenue options should alternative choices be necessary during City Council's deliberations.

The outcomes of the Plan are not pleasant, with at least some programs being curtailed in all areas. There are no winners in this process, with community members and employees sharing in the burden of this painful but necessary organizational change. In order to effectively address the significant size of the structural deficit over the next three years, it is specifically suggested that all organizations within the City share in the responsibility for addressing this challenge, not only departments under the City Manager's direction. While the Plan significantly reduces the structural deficit by approximately \$86 million, \$4 million remains in the structural imbalance that will still need to be addressed.

The next several months will provide the opportunity to explore in further detail the proposals contained in the Plan, and to continue the genuine and inclusive dialogue initiated through BEP. A series of community workshops will be conducted in February and March 2003, allowing for the contents of the Plan, the Community Survey results and the Mayor's Budget Advisory Committee's recommendations to be discussed in greater detail with the community. These workshops will provide the means of obtaining critical community input on the Plan's recommendations, and will serve as the basis for the development of the FY 04 budget, which will formally begin in March 2003.

The Acting City Manager will also develop a comprehensive employee transition strategy for any City staff that may be negatively impacted by the resulting service reductions. This strategy will define opportunities for reassignment and retraining, as well as career transition opportunities and services. The City's commitment is to ensure that no one is "left behind" in this process.

The Plan is a working document that goes beyond addressing the fiscal challenges facing the City of Long Beach, but also provides a blueprint for future government-community interaction and decision-making, working toward the following fundamental objectives:

Trust

Restoring trust between the City's government and the community it serves is an essential element of this collaboration. This belief is reflected in the inclusive nature of the BEP, which invited all sectors of the community to join the dialogue about the City's budget challenges and solicited input into defining solutions. The continued dialogue during upcoming community workshops and formal budget deliberations will reinforce trust built over the past several months.

Transparency

Transparency reveals the complex decision-making processes and strategies required to deliver services to a City of over 460,000 diverse residents. The challenges the City faces will require readily accessible information and ideas from varied sources. With informed community input and continued fiscal discipline, the City will be able to increase its effectiveness in managing limited public resources.

Responsiveness

The Plan is built upon the community's needs and priorities. While it is impossible to be responsive to all individual interests, the Plan takes into consideration the inputs of the community through the Strategic Plan process as well as the overwhelming message delivered through the "Voice Your Choice: Community Survey on City Services." Accordingly, the City staff has responded directly to the community's concerns, as the cost reduction proposals and revenue ideas are in line with the community's priorities.

Community Sustainability

The proposals identified in the Plan maintain a long-term perspective for the community's sustained health, by continuing investment in core service areas critical to the City's future: infrastructure, economic development and public safety, while providing opportunities for youth. Furthermore, the Plan will maintain the City's credibility within the financial community, demonstrating its deliberate response to cost and revenue fluctuations, while maintaining a full-service city. Rating agencies will respond favorably to the City's proactive planning for the future.

The adoption of a rational and balanced financial plan, reflecting input from stakeholders throughout the City, will provide a foundation for future decisions and policies. This Plan will require all participants to share in the responsibility, and the accountability, of implementing changes to the way the City does business. Input received in the months ahead will assist in refining the Plan to best meet the needs of the City Council and the community while still allowing opportunities to be responsive to changes in community needs or currently unforeseen financial circumstances.

1.0 INTRODUCTION AND BACKGROUND

1.1 Roots of the Budget Gap

The City of Long Beach is facing an extremely difficult financial situation. In this regard, we are not unique. Many cities, counties, special districts and states across the nation face similar, and even worse financial dilemmas. The simple reality is that we have a structural budget deficit, where ongoing expenses exceed the revenue coming in. This situation is not new; in fact, this City has operated with a structural deficit for the past 15 years. What is new, however, is that discretionary reserves have been depleted and one-time funding sources used to cover past and current City structural deficits are not available to the extent needed to bridge the existing gap. Also, the deficit has grown due to costs of new programs, new capital debt, inflation, wage and benefit cost increases, and the loss of revenue due to the voter-approved Utility Users Tax (UUT) cut. It is clear that costs must be significantly reduced to bring expenditures in line with revenues.

It took several years to get to this point, and it will take a number of years to balance ongoing expenses and revenues. The difficulty will be in downsizing the organization without severely impacting essential services to the public. Responses from the Voice Your Choice community survey will guide us in prioritizing City services and programs, and will serve to steer us in making the right decisions.

In leading this organization through these difficult times, decisions must be directed toward the best interests of the citizens. There can be no pet projects; everything must be on the table. Funding programs considered to be of low priority by the community must be seriously questioned. The citizens demand, and deserve, solutions that are based on a long-term perspective, not one-time fixes.

With regard to reducing costs, the dilemma of course is that two-thirds of the City's General Fund budget is allocated to police and fire services. We must remain cognizant of this and that the community ranks these services as very important. However, we must also recognize that many non-public safety programs accounted for in the General Fund are either wholly or partially offset by their own revenue sources. Reducing these services' budgets would result in a corresponding reduction in revenue and will not serve to solve the structural budget deficit. Therefore, it is not practical to eliminate the budget deficit solely by cutting non-safety budgets. Given that the deficit is projected to be in excess of \$50 million next fiscal year (FY 04) and rises to approximately \$90 million by FY 06, cutting this much out of non-safety programs and services could not be done without wholesale elimination of many programs and services.

Therefore, cutting costs is not the only option that should be considered. However, it is clear that, based on community input, revenue options will not receive community support unless the City first takes major steps towards reducing operating costs, including the size of the workforce, salaries, benefits and pension costs, and eliminating lower-priority programs.

The City's Tidelands Operating Funds (TOF) are also experiencing financial difficulties. TOF based services and programs include beach maintenance, the Convention Center, marinas, public safety, the Aquarium Bonds and the Rainbow Harbor area. TOF has a balanced budget for FY 03, and detailed projections for FY 04 are being prepared. TOF has had a structural deficit since the late 1980's when the State began taking most of the oil revenue and reserves that had previously funded TOF operations. The structural deficit has generally been covered by three remaining major funding sources: marina slip fees, transfers from the Harbor Fund, and profits from remaining Tidelands oil revenues; these revenues appear to be holding steady but are sensitive to economic changes. TOF's financial situation will be closely analyzed during the FY 04 budget process.

This report is a culmination of many varied and intense efforts over the past four months by the Acting City Manager, his staff, and the Executive Management Team (EMT) made up of department directors and other key managers that report to the City Manager. This report provides options that should stimulate the thoughtful discussions needed to successfully guide the City through this budget crisis. **Given the sheer magnitude of the General Fund budget deficit, reductions of both services and the size of the workforce are inevitable.** The EMT was instructed to identify and prioritize budget savings and revenue options, and to do so in a manner that minimizes negative impacts on essential City services as defined by the community survey. The EMT has also been tasked with formulating transition plans to assist City employees whose jobs will be affected by budget reductions.

1.2 Fiscal Outlook for the City of Long Beach

With regard to an economic recovery, the outlook is not good. Most major revenues are either in decline, flat, or with the exception of property taxes, showing relatively minor growth.

Projected growth of existing revenues is minimal, and therefore does not present a significant, viable option for addressing the budget gap. In fact, for the next three years (FY 03 – 05), reduced revenue caused by the UUT rate cut will essentially offset growth in all other revenue. A look at the City's four largest revenue sources, which make up 50 percent of total General Fund revenue, puts this point in perspective.

Secured property taxes (\$48 million) are fairly robust, likely due to sales activity prompted by low interest rates and a limited housing supply in the region, which drives up prices; however, recent growth in sales activity and housing values has been at a declining rate. In addition, most new property tax revenue expected from major development projects will flow to the Redevelopment Agency.

Sales taxes (\$39 million) are expected to grow at rates only slightly higher than inflation, even after taking into account recent retail development. In fact, the largest retail project in the history of the region, Long Beach's highly successful Towne Center, will

generate approximately \$2.5 million annually in sales tax revenue to the City, including the new Wal-Mart. **It would take 21 new "Towne Centers" added to the City just to eliminate the budget gap projected for FY 04.**

The UUT, previously the City's largest revenue source, is being reduced from the \$57 million collected in FY 00, down to about \$33 million by FY 06, even after taking into account increases to the underlying commodity rates upon which the tax is applied. Staff has reported throughout the last several years that the annual losses of UUT, resulting from the November 2000 voter-approved UUT reduction, would offset most of the growth in other revenues, resulting in a situation where costs would increasingly exceed revenues.

The fourth highest General Fund revenue, Motor Vehicle In-lieu (\$27 million), is dependant on continued funding from the State. This revenue, commonly referred to as the VLF (Vehicle License Fee), is a target for the Governor in balancing the State budget. As of the date of this report, the State Legislature appears to be rallying to spare local government from VLF cuts. Should VLF revenue be significantly reduced, not only would the budget reduction options put forth in this report need to be accelerated, but additional severe cuts to many more General Fund services would need to be immediately implemented or new revenue options identified. Public safety service levels quite possibly would also be negatively affected.

The City Manager's proposed FY 03 budget included a \$46 million structural deficit that was balanced using cash reserves and one-time revenues. The City Council took action and reduced the proposed FY 03 budget prior to adopting it. The structural deficit is now projected to grow from the current \$46 million to over \$50 million in FY 04 due mainly to an already negotiated 3 percent increase in non-safety employee wages and the continued reduction of the UUT. For FY 05, pension payments are expected to begin that will increase the projected deficit to over \$80 million.

1.3 State Budget Crisis

The State's budget deficit or, rather, its potential solution, looms above local governments like a dark specter. It is generally accepted that the State adopted a budget that appeared balanced, but that the Governor would need to reopen the State budget after the gubernatorial election. That in fact has happened. State Income Tax and other tax revenues continue to run significantly below projections, and the pace of job creation, while still positive, has been excruciatingly slower than projected.

There is no doubt 2003 will be a very turbulent year for the State as it struggles to pay for core and non-core programs in the face of declining revenues. The Governor has already shown his hand, by proposing cuts in allocations to local government, cuts that fall far short of the estimated \$35 billion deficit the Governor projects for the State's FY 04 budget.

The Governor called a special session of the Legislature for December 9, 2002, to begin deliberations on a proposed \$10.2 billion budget cut over the next 18 months, half of which would take effect almost immediately. However, the Legislature chose to adjourn until early January. Delays in either reducing expenditures or increasing revenues adds to the State's budget deficit.

The Governor, in his proposed FY 04 budget released January 10, 2003, recommends eliminating the \$4 billion Vehicle License Fee (VLF) backfill from the State general fund to local government. In 1998, when the State had a significant budget surplus, the State Legislature unilaterally reduced the VLF charged to vehicle owners, and the corresponding revenue to local governments. After much opposition from local governments, the State relented and made whole local governments by backfilling the lost revenue out of the State's general fund. The Governor did not, however, propose eliminating VLF revenue that goes to the City's Health Fund.

The City's General Fund receives approximately \$27 million per year in VLF revenue, \$19 million of which is State backfill, as mentioned above. The Governor proposed taking the \$19 million VLF in FY 04, in addition to \$12 million this fiscal year. Talks of an increase in the Educational Revenue Augmentation Fund (ERAF) property tax transfer to support public schools are rumored as well.

The Legislature has taken up the Governor's proposal, along with his mid-year budget cut proposals that include reduced allocations to local government for local street repairs, libraries and health programs, and the taking of redevelopment agencies' property tax increment revenue, as well as housing funds needed to meet growing low- and moderate-income housing needs. Any mid-year reductions of City funding from the State will require curtailments in City programs beyond those put forth in this report.

The League of California Cities, cities, counties and special districts are mounting a concerted effort in Sacramento to protect local government revenues. Although Long Beach is now considering budget cuts to deal with its own fiscal problem, we will at the same time continue to direct resources toward legislative analysis and advocacy.

1.4 Responses to the Financial Situation

1.4.1 FY 03 City Council Actions

Confronted with the sizeable structural deficit, the City Council, on September 23, 2002, adopted the FY 03 General Fund budget. In adopting the budget, the City Council also adopted several significant amendments and actions as follows:

- Further reduced the budgets of City Manager-supervised non-safety departments by 1.5 percent for a total budget cut of 3.5 percent;
- Reduce elected and appointed office budgets by 3.5 percent;

- Further reduced the non-sworn budgets of Police and Fire Departments by 1.0 percent for a total budget cut of 3.0 percent;
- Reduced the funding for the Public Corporation for the Arts by \$450,000, most of which had been earmarked to fund the Municipal Band, while transferring \$350,000 to the Department of Parks, Recreation and Marine's budget for the Municipal Band;
- Directed the City Manager, City Auditor and staff to work with the Mayor's Budget Advisory Committee (BAC). The BAC was tasked with identifying strategies to close the significant gap that exists between General Fund expenditures and revenues. See Section 1.4.4 for a more detailed description of the BAC.

Section 4.1 of this report summarizes how City Manager departments are implementing the above mentioned budget reductions.

The projected \$46 million gap for FY 03 was closed largely with the use of all available discretionary reserves. Since those reserves resulted from one-time revenues, their use did not reduce the structural gap; it simply covered the shortfall for the current fiscal year. The structural gap is estimated to exceed \$50 million for FY 04. Beyond that, City employee pension plan investments that are managed by the State's CalPERS organization, experienced staggering investment losses the past two years due to sharp declines throughout the stock market. Under current CalPERS retirement plan funding policy, those losses, together with retirement plan enhancements, will require the City to begin paying approximately \$36 million to CalPERS in FY 05. The \$36 million cost is made up of \$26 million for public safety employees and \$10 million for all other employees.

The task before us is daunting. The enormity of the fiscal problem cannot be overstated. Therefore, at the direction of the Acting City Manager, staff initiated the Budget Evaluation Process (BEP) as an accelerated complement of Long Beach Plan reforms (see Section 1.4.2 below). The BEP is a comprehensive and inclusive process whereby every program, service, and budget that affects the General Fund and related funds are being reviewed (see Section 1.4.4 below). The result of this process will be the development of a three-year financial strategic plan and a sound decision-making model for financial policy decisions.

1.4.2 The Long Beach Plan

In October 2000, the City Council adopted the Long Beach Plan as "an initiative to improve the delivery of municipal services to our community using a systematic process of periodic review and evaluation." On August 13, 2002, the City Council was provided with an update on the Long Beach Plan and its evolution into a multi-layered approach that aims to:

- Integrate and align initiatives and services
- Identify core service priorities
- Focus the organization on desired core service outcomes

- Enhance accountability and transparency to the public and decision makers
- Improve communication
- Inspire and motivate the workforce

The Long Beach Plan is a framework around which to align services and strategies to maximize and effect positive change, and to identify priorities for budget planning. It is a change in how we make decisions and allocate resources by engaging the community, the City Council, management and employees to realize the desired quality of life for current and future generations.

The goals of the Long Beach Plan are to provide:

- The City Council with goals and performance information from which to set policy direction that will lead the annual budget process;
- An integrated approach to planning, measuring and delivering the wide variety of City services;
- A concept for good government, one that is accountable and responsive to its customers;
- Integration and alignment of the various initiatives we have in place that, for the most part, currently stand-alone;
- A method to engage and involve employees at all levels of the organization in improving our services;
- A method to use the valuable input from our customers to guide us in evaluating and prioritizing the programs we provide and the allocation of resources; and,
- A vehicle for service evaluation to provide ever more customer-friendly, cost-effective and efficient services.

Although implementation of the Long Beach Plan is in its early stages, what has been accomplished under its umbrella has been valuable in jump-starting the process to address the City's structural deficit. The approach used in the BEP is a result of the concepts developed as part of the Long Beach Plan. As the Long Beach Plan is further developed, it will become even more valuable in assisting policy makers with the very difficult trade-offs that occur during the democratic process by blending community input and staff expertise into the service delivery process.

1.4.3 Service/Program Prioritization

One of the objectives of the Long Beach Plan is for the City Council and the community to identify goals and strategic priorities and to better focus the organization on those that are accepted and agreed upon. In developing the Long Beach Plan, one

component was the creation of Department Business Plans, in which each City Manager department identified their primary goals and those services that bring value to the community. These goals serve as the foundation for the Business Plans. The goals define the primary mission of each department, whereas the services and corresponding programs provide the means for achieving the goals. Some services are core to the department's goals, while others may be more loosely related.

The goals should represent the priorities for the City. **Attachment 1** summarizes the City Manager departments' proposed goals established as part of the development of Department draft Business Plans last year. The City's business strategies will be designed to accomplish those goals and will be key in the future when performance measures are developed. Intended to make government more accountable to the City Council and the community, these measures represent the tools needed to assess the effectiveness and efficiency with which services are delivered.

These proposed goals were used as a basis to start the review of the budget through the identification and prioritization of services and programs. This process allowed departments to focus service priorities when reviewing budget reduction options. City staff identified and prioritized 486 distinct services through this exercise. Over the years the City has added a number of worthwhile programs and services, but the focus now must be shifted to preserving core services. City management is reviewing all services for cost saving opportunities through streamlining, consolidation, contracting, service reductions or elimination.

As part of the review of this Plan, the City Council will be asked to endorse these goals. Once finalized and approved, staff will continue the use of these goals as a foundation for analysis and decision-making.

Thoughtful review and prioritization of City services and programs provided a key block in the foundation on which the three-year strategy was built. City services and programs were identified and prioritized within the coherent and unified framework of the draft goals.

The priority ranking process is logical and presents a method for dealing with difficult financial problems. To use it effectively, however, the entire organization must be considered when reviewing the ranking of services and programs for individual goals.

Attachment 2 is a listing of each department's services and programs, in priority order, based on the goals. Please note, for this exercise, departments in some cases used a goal of "Other" to capture administrative functions. Also, due to the recent adoption of this approach and the categories of goals, programs and services, City staff is still working on compiling and validating revenue and expense amounts shown in the attachment. The City Council and BAC will be provided with an update once the numbers are validated.

1.4.4 The Budget Evaluation Process (BEP)

At its October 29 and November 26, 2002 meetings, the City Council was presented with reports on the Budget Evaluation Process (BEP). As mentioned previously, the BEP is an intense, comprehensive and inclusive process whereby every program, every service, and every budget that affects the General Fund is being reviewed.

City staff developed the BEP to provide the City Council with a comprehensive three-year financial strategic plan that identifies options to reduce services and programs, including impacts, for informed decision making. The BEP is designed to provide a framework to provoke thoughtful review of options to address the structural gap between ongoing expenditures and revenues. Generating ideas, formulating short- and long-term strategies that will bring the budget back into balance, and implementing these reforms can only be achieved through an inclusive, open process that involves all sectors of the community – residents, businesses, elected officials and employees.

The following are the major components of this process:

Community Outreach and Service Prioritization

As part of the BEP, community input has, and will continue to be, actively sought. An extensive outreach effort was conducted to solicit input from citizens and businesses throughout the City. City staff attended numerous community meetings, the “Voice Your Choice: Community Survey on City Services” was created and distributed, and the “Community Meeting on City Services” was held at the Convention Center on November 23, 2002. These efforts are more fully discussed in Section 2 of this report.

Outside Review of City Salaries, Benefits and Staffing Levels

A Request for Proposals (RFP) to contract for an independent compensation and staffing study was released in early November 2002. The study will provide the City Council, the BAC, City staff and the public with insights on the appropriateness of City staffing levels, salaries and benefits. It is anticipated the study will be complete by April 2003 and available for inclusion in the FY 04 budget development process.

Mayor’s Budget Advisory Committee

The Budget Advisory Committee (BAC) is composed of ten community members that have volunteered for this assignment. They have been meeting over the past several months as an independent body to assist in developing options for consideration to close the structural deficit. The BAC has formed three subcommittees, one concentrating on short-term budget saving options, another looking at longer-term solutions and a third reviewing prior year BAC recommendations for applicability to the current situation. The City Council directed that staff from the Financial Management Department and the City Manager’s Office support the efforts of the BAC, and asked the City Auditor’s Office to assist as well. The BAC will present some of their options on January 28, 2003, while they expect their longer-term options to be ready by late-Spring 2003.

City Council Input

Since the inception of the BEP, several City Council agenda items with budget implications have been referred to the BEP process for further consideration. In addition, the City Council requested that a number of items be reviewed and an update presented along with the Three-Year Financial Strategic Plan. Included among those items was to update a previous report on revenue-generating ideas, provide a status of fund balances, identify potential resources for unfunded FY 03 City Council priority projects, and report on funding alternatives for future park development and recreation operations. These updates are provided in Section 8 of this report.

Spending Curtailment Initiatives and Hiring Freeze

Restrictions were put in place to limit spending to only items needed for service delivery and safety. Travel and training were severely limited, and review processes established to ensure only essential purchases are made. Projects not yet initiated are being deferred until a strategic approach for expenditures is approved. Also, under the current hiring freeze, only positions essential to service delivery and safety are being filled. These measures were immediately implemented to realize all possible savings in the current fiscal year.

Department and Employee Input

City Manager departments were asked to submit 10, 20 and 30 percent budget reduction scenarios including program curtailment or elimination, restructuring of service delivery, elimination of recent budget enhancements, consolidation to reduce overlapping responsibilities, phase-out or sunset of programs, and identification of contracting-in/out opportunities. They were also requested to submit revenue ideas related to their service areas.

As described in Section 2.3.2, City employees were invited to submit ideas for reducing costs and improving the efficiency of City operations, while Section 2.3.3 discusses other ideas submitted by department directors with regard to operations outside of their purview.

Identification of Best Practices

Departments were also asked to explore best practices with other agencies that provide the same or similar services. These concepts and ideas were also incorporated as options in the process.

Executive Management Team Review

The Executive Management Team (EMT), which is composed of the Acting City Manager, key City Manager staff and City Manager department directors reviewed the information collected from all the sources mentioned above. From this information, they formulated the recommended Plan contained within this document. While developing this Plan, the EMT took great care in ensuring that the recommendations respond to the survey results, minimized the impact of cost reductions on core service to the public and considered revenue as an option second to cutting costs.

The ambitious and inclusive efforts outlined above are important in developing a financial strategy that reflects the public's priorities concerning core City services. In addition, taking proactive and immediate steps to control spending and to keep positions vacant allows for a rational implementation of change over a three-year period, rather than mistakenly reducing critical services in a haphazard manner. It is essential that the City Council, the public and City staff come together in an honest dialogue to address the difficult issues facing our City.

The EMT adopted the following overarching principals to guide them in the development of the Three-Year Financial Strategic Plan:

1.4.5 Guiding Principles of the Budget Evaluation Process

Listen To The Community

Community members have expressed their opinions. City services should reflect those expressions. The City will focus on core services. New services and programs should be deferred or reformulated until the structural deficit is eliminated and additional funding resources identified.

Structure For Service

City operations will be organized to ensure the most efficient and cost effective service delivery. Administrative and management overhead will be reduced, overlapping service areas consolidated and contracting opportunities explored. All ideas and avenues for cost reduction, revenue generation and service alternatives must be considered, including the number and traditional deployment of sworn safety personnel.

Operate In A Business-Like Manner

Fees for services should be competitive and reflect appropriate cost recovery. Fair market value should be received for the use or sale of City assets. Employees should participate in the cost of their benefit package.

Invest In The Future

The City recognizes the need to invest in its future. Infrastructure, economic development, technology and employee development are keys to future success. The City will explore opportunities for growth through new and expanded partnerships with the business, non-profit and educational communities.

2.0 COMMUNITY INPUT AND EMPLOYEE PARTICIPATION

A critical element of BEP was an intensive community outreach process. The BEP was designed to be an inclusive process, with a goal of informing the community about the scope of the City's budget challenges, as well as providing access to the decision-making process to the broadest possible segment of the community. The BEP targeted stakeholders throughout the City, including the City Council, the BAC, businesses and other community members, and employees at all levels of the City organization.

2.1 Community Outreach and Input

During the months of November and December 2002, the City Council, BAC and City staff undertook an unprecedented grassroots outreach effort to solicit service priority input from community members and businesses throughout the City. The "Voice Your Choice: Community Survey on City Services" (see **Attachment 3** for a copy of the Community Survey) provided the opportunity to rate 51 General Fund programs in nine service areas as being either "essential," "important," "nice to have" or "not important." The survey also solicited revenue generation ideas and general ideas "for fixing the City's budget problem." The survey was designed to solicit opinions and information on the most-likely impacted General Fund services, while providing an opportunity for maximum community input and expression.

English, Spanish and Khmer versions of the survey were distributed at most City facilities. The survey was made available on the City's website and mailed to over 170,000 City utility customers, and was published at no cost in the *Press-Telegram* and the *Long Beach Business Journal*. In addition, it was presented and distributed by City staff at over 80 board, commission, advisory committee, neighborhood association and business organization meetings.

Furthermore, a "Community Meeting on City Services" was held on November 23, 2002, at the Convention Center. The meeting provided an opportunity for the public to hear about the budget challenges facing the City, to review preliminary results of the community survey, to discuss services with City staff and to offer suggestions for savings and revenue generation. The forum allowed City staff, City Councilmembers and BAC members to meet with the public and share ideas regarding service priorities and options for reducing the cost of City services.

2.2 Survey Results

Through December 31, 2002, the City received over 10,600 surveys, which serve as the basis for the following summary. The "Voice Your Choice" survey has garnered a level of participation not experienced in Long Beach in recent memory. As noted previously, the "Voice Your Choice" process was as much about establishing a sincere, meaningful dialogue with the broadest cross-section of the community as it was about gathering relevant data that reflects the community's priorities for services and their ideas for balancing the budget.

2.2.1 Service Prioritization

The community's voice was clearly heard through this ranking process. The community felt very strongly that 37 service areas were essential or important, while 14 service areas were nice to have or considered not essential. Please see **Attachment 3** for the complete results of the survey on service prioritization.

2.2.2 Revenue Ideas

The community responded to various avenues to raise revenues to maintain essential services. These included new taxes, bond measures, and increasing fees for services. Reflecting what appears to be a realistic understanding of the current financial challenges facing the City, only 16 percent of respondents were opposed to any new revenue increases. The following exhibit provides a complete summary of responses for revenue options.

Summary of Revenue Options	
	In Support
<i>Increase in the Hotel Bed Tax (Transient Occupancy Tax)</i>	39.8%
<i>Increase in fees for select City programs (sports programs, animal control fees, ambulance fees, etc.)</i>	35.5%
<i>Increase in fines for parking/traffic tickets</i>	36.9%
<i>Support an admissions tax on arts and entertainment to fund arts programming</i>	36.6%
<i>Support a bond measure for parks, recreation and library facilities</i>	35.1%
<i>Support a bond measure for public safety facilities</i>	30.2%
<i>Support a bond measure for streets, sidewalks and alley improvement</i>	36.7%
<i>I would not support any revenue increases</i>	15.6%

The community also offered hundreds of alternate ideas to generate revenues. The ideas covered increases in current fees-for-service, increasing current tax rates, and creating new taxes. Some of the most frequent ideas offered for revenue generation included "enforcing and charging higher fines for environmental violations (especially at the Port)," "charging fees for currently free programs (e.g., recreational activities, graffiti removal, cultural and arts programs, etc.)," "reinstating the Utility Users Tax" and "creating a container tax at the Port."

2.2.3 “Other Ideas to Fix the Budget”

The survey also provided an opportunity for community members to make any suggestion they felt might contribute to the resolution of the City’s current budget crisis. The range of responses was impressive, covering issues as diverse as contracting-out the entire City government to reducing the frequency of street sweeping.

Although the individual responses varied greatly, the following suggestions represent ideas and comments voiced often through the survey:

“Cut managers and management salaries...” and “eliminate ‘perks’ such as cars, travel and free meals.” The most frequently mentioned issues for the community are related to salaries, pensions and other benefits for all employees. There is an undeniable perception that the compensation provided City employees is too high, and reductions in this area should be considered before service reductions and revenue increases are implemented.

“Why is it that only service reductions are on the table? We should be reevaluating everything including hiring private sector companies to provide municipal services.” There was a clear desire to see more services provided by the private and non-governmental sector with a related decrease in the size of the City government.

“Stop the use of expensive consultants...hire a research and evaluation core so many projects being contracted-out can be done by a staff researcher and student interns...for one-tenth the cost.” The community feels that there is a large pool of talent amongst the current City staff, and they believe that the City should utilize staff rather than paying for outside experts to provide information and solutions.

“Optimize City services by consolidating services performed by two or more departments and reducing red tape.” The community voiced a strong opinion that they wanted to see the City become a more efficient organization if reductions to services are being considered.

“Eliminate feather bedding in Fire Department. Reorganize police deployment practices. Replace ‘sworn’ positions with civilians. All jobs cannot be saved! Attrition will not be sufficient.” Given that the fire and police services represent the largest portion of the General Fund, it was mentioned on multiple occasions within the community’s input to direct a critical review of emergency safety services, and to include the sworn employees in the overall scope of the budget evaluation process.

While impossible to capture every idea in the Three-Year Financial Strategic Plan, the Acting City Manager and department directors reviewed all ideas and have made a sincere effort to ensure the proposed plan reflects the community’s priorities and ideas. Nonetheless, the survey provided a clear indication as to the service priorities of our community, as well as specific concerns about how their City government is performing.

The input that we received has been invaluable to better inform the staff's review and assembly of a comprehensive fiscal strategy. Indeed, the information received through the survey and through the outreach efforts with neighborhood groups, City commissions, boards and advisory committees has served as the basis of, and is reflected in Section 5 of this Plan.

Providing feedback to the community regarding the use of their input is critical to a sustainable system of civic participation. A "feedback loop" is a timely means of informing people they have been heard, how a city will respond to their contributions and what comes next. A series of activities is envisioned for the upcoming months to provide this feedback and to solicit further input from the community regarding the results of the Community Survey and the recommendations contained in the Plan. This process is described in greater detail later in Section 9.1.

2.3 Other Key Inputs Informing Decision Making

2.3.1 Strategic Plan 2010

The Strategic Plan 2010 was formed with the input from hundreds of community members and provided the City with a direction for community growth and sustainability for the future. As part of the service/program prioritization mentioned earlier, departments were also asked to identify Strategic Plan areas impacted by each service/program. In doing so, those services/programs of importance to the furtherance of the Strategic Plan were taken into consideration when reviewing service impacts of the recommended Three-Year Financial Strategic Plan. While every attempt was made to minimize impacts to Strategic Plan priorities, it was not possible to protect all areas from reductions given the magnitude of the structural deficit.

2.3.2 Voluntary Idea Program (VIP)

Employees are a rich source of information on the daily operations of the City's many services and programs. At times of profound organizational change, employee input is essential to identifying viable avenues for reform and long-term optimization. Line-employees and their supervisors are well suited to examine the department's operations, identify problem areas and hindrances to efficiency, and outline ideas for improvement across a department's functions. The Acting City Manager tapped into this valuable knowledge base through the City's Voluntary Idea Program (VIP).

Employees from every department and at all levels of the organization were asked to submit cost saving and revenue generating ideas. In total, 361 VIP ideas were submitted. Each department was asked to carefully evaluate each VIP related to their operations. Those ideas deemed immediately viable have been included in the financial plan. The Acting City Manager is committed to providing feedback regarding the disposition of each idea to those employees that participated.

2.3.3 Citywide Ideas

The Acting City Manager asked his Department directors to put forth cost saving and revenue-generating ideas related to departments other than their own. This request was based on the fact that each department director brings an intimate knowledge of the organization to the exercise. The Citywide Ideas, as they were known, captured this perspective through 165 submissions. Like the VIP suggestions, those ideas that appear feasible were included in the financial plan.

2.3.4 Budget Advisor

Mr. Len Wood, a former City Manager and nationally recognized municipal finance expert, has been retained on a limited basis within the City Manager's Office. Mr. Wood brings an outside expertise to the City, and will be available throughout the coming months to advise the City Council and staff on the development of the budget evaluation strategy.

3.0 POLICY ISSUES AND STRATEGIC CONCERNS

Though not specifically requested during the outreach efforts, several high-level policy issues surfaced. City employees and community members voiced some concern about the following issues that may factor significantly in the future success of the BEP and the financial health of the City.

The issues are outside the Acting City Manager's scope of authority and, if executed, would require City Council and/or community action. The Acting City Manager, by transmitting this input, is not necessarily endorsing or recommending any actions be taken on these issues. The issues are sorted below into several broad categories, including City Council, Other Elected Officials, Non-City Manager Departments, City Charter Changes, Policy Changes, Community Participation and Other Funds.

3.1 City Council

- Reduction to the City's workforce will negatively impact the ability of staff to respond to requests for service, particularly requests that fall outside of established operating and maintenance schedules. This understanding must be reflected in the City Council's expectations and requests for service.
- Within the scope of the City's new ethics program, a Municipal Code requirement should be established that require City Council offices budget and report all City expenditures for their district's activities, such as events, the market value of office space used, and tenant improvements.
- The dollar amount of City Council district budgets should be equal. Each City Councilmember would still have the discretion to allocate their district's budget to specific expenses, as they deem necessary.
- The cost of preparing special reports requested by City Councilmembers should be considered prior to directing that such reports be prepared. Report preparation costs should also be communicated in the reports.
- The City Council should adopt a policy to prohibit issuance of long-term debt to pay for items considered short-term maintenance (e.g., ongoing street repairs, sidewalk rehabilitation, etc.).
- The size of the City Council and Mayor's staff should be limited to reflect the scope of their duties, especially during this financial downturn and hiring freeze.
- The City Councilmember vehicle policy should be reviewed, eliminating take-home vehicles, and clearly establishing a policy on appropriate use of City vehicles.
- Costly off-site City Council meetings should be eliminated.

3.2 Other Elected Officials

- The entire City needs to participate in the BEP, including the elected and appointed offices.
- Duplication of audit functions between Financial Management and the City Auditor's office should be eliminated.
- Consideration should be given to contracting-out the Worker's Compensation program currently managed by the City Attorney's Office.
- Operational reviews of the elected and appointed offices should be conducted.

3.3 Non-City Manager Departments

- The idea for a Port Container Fee/Tax should be aggressively researched.
- Costs should be shifted to the Harbor Fund for the mitigation of their negative impacts on the local environment, infrastructure and health.
- Efficiencies in Harbor Department operations should be improved so more savings can be passed on to the Tidelands Fund.
- The percentage of Port profit transferred from the Harbor Fund to the Tidelands Fund should be increased and/or change the transfer should be changed to be a percentage of gross revenue instead of net profit (see City Charter Changes below).

3.4 City Charter Changes

- The duties of the Harbor Commission, Water Commission and Redevelopment Agency should be consolidated under the direct control of the City Council (in light of the associated increase in workload for the City Council, should transition to and compensate City Council offices as full-time positions funded through proportionate shares of the enterprise revenue).
- The City Charter should be changed so the Tidelands Fund receives 25 percent of Harbor Fund net income, instead of 10 percent.
- The Civil Service and Human Resources Departments should be combined.
- The City Attorney and City Prosecutor's offices should be consolidated.

3.5 Policy Changes

- An on-going program of external peer review and public discussion of departmental management structures and administrative costs should be established, starting with police and fire departments (including sworn staff). The goal of each review would be to identify a series of actions to reduce or confirm that departmental administrative and other costs not directly related to patrol/law enforcement and fire fighting/prevention are below benchmark costs of comparable agencies.
- Support should be continued for progress toward program-based (versus department-based) budgeting, and the development of discrete performance measures and benchmarks as the basis for gauging service effectiveness.
- Management compensation should be reviewed with the understanding that any resultant restructuring of compensation will affect all City employees, and should be based on an agreed-upon policy relative to comparable public agencies.
- Grants that are not (1) permanent, on-going funding and (2) require City match (such as Police Officer grants), should not be accepted until the budget problem is resolved.
- Proposition "L" should be amended to be less restrictive in order to save on administrative costs associated with contracting for services and providing for a health care stipend.
- The amount of the Emergency Reserve should be reduced from 10 percent to 8 percent of the General Fund budget.

3.6 Community Participation

- A comprehensive community participation strategy should be developed that institutionalizes a framework for public involvement in City decision-making.
- Regular Citywide surveys, not less than annually, should be instituted and supported to serve as a consistent measure of community satisfaction with City services.

3.7 Other Funds

- A top-down review of the City's fund structure should be conducted, and, where necessary, funds should be consolidated, reduced or established to reflect current and long-term policy priorities and to improve clarity to both the public and City management.
- A comprehensive revenue and expenditure review should be considered for the Tidelands Fund.

4.0 FY 03 FISCAL STRATEGY

4.1 Impacts of the FY 03 Reductions

On September 23, 2002, the City Council adopted the FY 03 budget. Included in the budget were across-the-board reductions of 3.5 percent in all non-safety General Fund departments, including elected and appointed offices. The Police and Fire Departments' General Fund budgets were reduced by 3.0 percent, after excluding sworn and dispatcher salaries and benefits. The total FY 03 General Fund budget reduction amounts to \$6.3 million.

Of the \$6.3 million reduction, \$3.5 million was applied to balancing the FY 03 budget as proposed by the City Manager, while approximately \$400,000 was applied to certain enhancements. The balance of \$2.4 million resulting from the Mayor and City Council directing further budget cuts, is expected to be carried over to help balance the projected FY 04 budget. Budget reductions of 2.0 percent were also approved in the Tidelands, Towing, Internal Service and Gas Funds.

The following summarizes service impacts anticipated as a result of the FY 03 budget reduction. A more detailed listing is shown in **Attachment 4**. The General Fund reduction in City Manager-directed departments equates to \$5.6 million, or 89 percent, of the total \$6.3 million reduction.

Based on Mayor and City Council deliberations during budget hearings prior to adopting the FY 03 budget, it was clear that in implementing these cuts, staff was expected to minimize negative impacts to City services and programs, and minimize impacts on employees. Therefore, the Acting City Manager directed his Executive Management Team to look to these two principles when preparing recommendations on the manner in which the FY 03 budget reduction would be accommodated. Staff also had the benefit of utilizing public input gained from the early returns on the Citizen Survey in guiding this budget reduction effort.

As described in the October 29, 2002 report to the City Council on the Budget Evaluation Process (BEP), both a spending curtailment and a hiring freeze were instituted for City Manager-directed departments. This is the primary method being used to meet the reduced budget this fiscal year. That is, significant savings are being realized by keeping positions vacant and/or under-filling positions where possible. In addition, departments are reducing travel, training, and membership expenses, and are deferring other purchases as necessary to achieve budget targets. There are limited instances where services are reduced and others where programs not yet underway will not be implemented. There are some cases where employees are being reassigned, but no employee layoffs are contemplated in this effort to meet the FY 03 adopted budget targets and spending restrictions.

In addition to budget reductions mentioned above, the Acting City Manager has directed the management team to identify further potential current year reductions to provide a

larger carry-over of fund balance to FY 04; these savings would be in addition to the \$2.4 million generated by the City Council in the adopted budget. Creating a carryover for use in FY 04 is critical to help mitigate reductions required to balance the FY 04 projected deficit. A carryover in excess of \$11 million is included in the Plan for FY 04; further service reductions will be required beyond those proposed in the Plan should this carryover not be generated. Some options being evaluated include refinancing the SERRF Facility, additional savings generated by the hiring freeze, Redevelopment Agency statutory pass-through of property tax increment revenue and allowing the Business License Tax discount program to sunset.

Leaving budgeted positions vacant during FY 03 will have an impact on workload and efficiency in some departments. However, departments have been directed to prioritize workload requirements and minimize the impact to the public as much as possible.

Examples of some of the more significant impacts in FY 03 are described below:

- The Natural Resources Stewardship Program in the Parks, Recreation and Marine Department will not be implemented. This recently adopted program was still under development, but not yet implemented, so there will be no effect on current service levels. This program was being designed to provide environmental education to the City's youth. A similar outreach program, Discover Long Beach, will continue. Savings from this reduction amount to \$104,000. The Natural Resources Officer position that would have overseen this program will also not be filled for an additional savings of \$91,078, for a total of \$195,078.
- The OlympiKids program budget in the Parks, Recreation and Marine Department for FY 03 will be discontinued. For the past two years, this supplemental physical exercise program has augmented state-mandated physical activity requirements for elementary school children at four school sites. The program curriculum will be made available to the school district should they choose to continue the program with their own staff. This is an annual savings of \$43,229.
- Funding of \$66,000 for the International City Theater (ICT) will be eliminated. The ICT was a six-week summer theater conservancy that taught performing arts to approximately 60 youth, in addition to presenting 24 park-based children's theater performances.
- The Library Services Department will not install a self-checkout machine at the North Neighborhood Library as originally planned. This was to have been a pilot project and will not have an impact on current services. This is a savings of \$36,000.
- The Library Services Department will defer replacement of 14 public use computers for a savings of \$40,000. These computers are five years old and

cannot accommodate the upgraded automated system that will be installed in Spring 2003. There may be a service impact of longer wait times for a computer.

- The Police Department will reassign a Drug Recognition Expert (DRE) Corporal from Traffic Detail to the West Division Patrol. The reassignment will reduce sworn officer overtime use by \$73,000. There will be minimal impact to the Traffic Detail, as other Traffic Division Police Officers have been trained in DRE procedures. In addition, an Internal Affairs Police Officer will be reassigned to West Division Patrol for additional overtime savings of \$73,000, totaling \$146,000.
- Certain City facility security efforts staffed by sworn Police Officers will be reduced. Security Officers will continue to staff these functions and sworn Police Officers will be available when needed. This will save approximately \$275,000 in overtime costs.
- The Fire Department is implementing a new Records Management System (RMS) Program that will result in a change in staffing and contract services. This change will result in the elimination of one position and the reassignment of a civilian employee to another department. These changes will save approximately \$145,000.
- The Fire Department will reassign one of two Firefighter/Public Information Officers in the Community Services Division to the Operations Bureau, Suppression Division. An Assistant Fire Chief will respond to on-call responses not covered by other staff. Expected savings are approximately \$57,000.
- The Fire Department will reorganize the Fire Prevention Bureau (FPB) by eliminating one FPB Fire Captain position and upgrading the other to a FPB Battalion Chief. The two FPB Fire Captains will be assigned to vacant positions in the Fire Suppression Bureau, while their previous FPB supervisor responsibilities will be assigned to the new FPB Battalion Chief. Remaining FPB staff will be able to cover necessary duties. This results in a net reduction of one position and a savings of approximately \$76,000.
- The Public Works Department will discontinue discretionary and non-emergency office and workstation modifications for other City departments. This will not affect service to the public. Two of the employees budgeted in this program will be reassigned and one position is vacant for an approximate savings of \$160,000.
- The Public Works Department will suspend support for City-sponsored and private special events and safety fairs that are not budgeted (except major street traffic control) and film company support. The event sponsor and film companies will be required to utilize private contractors for support. Temporary gutter repairs will also be suspended. The estimated savings is \$171,000.

- The City Manager Department will not fill three positions, and has significantly reduced spending on travel and other business related expenses. The three unfilled positions are a Program Specialist, a Management Assistant and a Clerk Typist.

4.2 Immediate Action Recommendations for FY 03

The Acting City Manager has directed that certain functions within the organization be thoroughly evaluated because they offer significant, and in some cases immediate, savings opportunities. This includes reviews of service delivery options related to the City's fleet of vehicles and equipment, as well as code enforcement, risk management and occupational health programs. As you know, a private firm has also been retained to take an independent look at the City's management and employee staffing and compensation. In some cases industry experts will be retained to assist with the review to capitalize on specialized expertise and objectivity, while in others various affected City departments have been asked to work together to identify cost saving options.

The City, as are most other governments and private companies, have seen Workers' Compensation costs skyrocket the past few years, and there does not appear to be a slowing of this trend. Therefore, it is suggested that a comprehensive review be conducted of the City's Workers' Compensation, Occupational Health and Risk Management services. The ideal approach would be to have the review managed as a joint effort between the City Attorney, City Auditor and Human Resources, with assistance from outside industry experts.

The Acting City Manager is taking other steps to reign in expenses that include restrictive policies on the use of City cell phones, take-home vehicles and employee travel. Also, the Technology Services Department is evaluating the City's desktop and network computer systems to determine the cost/benefit of extending replacement schedules. Departments were also directed to adjust staff work schedules and assignments to significantly reduce use of overtime.

The Acting City Manager has directed there will be no across-the-board salary increases for managers. In addition, certain organizational consolidations are being implemented immediately (e.g., Financial Management's Budget and Accounting Bureaus, and Technology Services bureau restructuring), and vacant management positions are being held vacant or filled on a temporary basis to provide the greatest flexibility for restructuring to the incoming City Manager.

5.0 THREE-YEAR FINANCIAL STRATEGIC PLAN

5.1 Three-Year Overview

This three-year financial plan is designed to address the City's structural budget deficit in a logical and balanced manner. Cost reductions are the primary options recommended within the Plan. Every attempt has been made to avoid impacts on public services. However, due to the magnitude of the gap, service impacts are unavoidable. Moreover, program reductions beyond those presented in this plan will create severe disruptions to core services.

The financial strategic plan on the next page identifies the program reduction and revenue options by major program areas. This strategic plan is a summary of hundreds of specific options to address the structural deficit which are summarized on the pages that follow (**Attachment 5** provides further detail on the proposed changes). The Plan reduces the gap over several years. Therefore, it includes the use of some one-time options; doing so avoids severe service disruptions, maintains the viability of the City as a full-service government, while at the same time bridging some of the gap while the City's revenue base expands. A summary of each area's options is provided on the pages following the financial strategic plan.

The program reduction and revenue option areas include:

- Types of Costs: General Administration and Management; Employee Compensation, Benefits and Work Practices; and, Materials, Supplies and Equipment.
- Service Delivery Methods: Contracting Opportunities; Operational and Organization Changes; Maintenance Reductions; Business Services and Attraction; and, Communication, Promotions and Special Events.
- Community Services: Capital Projects and Infrastructure; Recreation Services; Library Services; Public Safety Support and Related Services; Public Safety Emergency Services; Arts and Cultural Programs; and, Code Enforcement.
- Revenue and Other Sources of Funding: Return on Assets and Marketing Opportunities, New Fees or Taxes; Existing Fees or Taxes; and, One-time Revenues/Transfers.

Since the focus of this effort was to address the structural budget deficit, a clear distinction was made between ongoing and one-time cost reductions and revenues. One-time options help balance a particular year's budget, but do not resolve the structural deficit. It was mentioned in the Introduction and Background Section of this report that the City has had a structural budget deficit for many years, and that these deficits were partially covered with one-time solutions. The City no longer has sufficient one-time options to cover projected budget deficits. Ongoing cost reductions, balanced with reasonable assumptions of revenue generation, are the only means by which the structural deficit can be solved.

Three-Year Financial Strategic Plan

Category	FY 04		FY 05		FY 06		Three Year Total		% of the Solution
	Dollars	FTE	Dollars	FTE	Dollars	FTE	Dollars	FTE	
Estimated Structural Budget Gap	\$52,000,000		\$30,000,000		\$8,000,000		\$90,000,000		
Structural Deficit Remaining from Prior Year			\$11,676,014		\$6,401,213				
Total New Structural Gap	\$52,000,000		\$41,676,014		\$14,401,213				
Carry-over from Previous Year	(\$11,703,428)		(\$2,652,414)		(\$176,201)				
Current Year Budget Gap	\$40,296,572		\$39,023,600		\$14,225,012				
General Administration and Management	(\$7,065,675)		(\$3,225,783)		(\$1,050,071)		(\$11,341,529)		13.2%
Employee Compensation, Benefits & Work Practices	(\$3,370,982)		(\$15,074,275)		(\$4,967,441)		(\$23,412,698)		27.2%
Contracting Opportunities	(\$976,381)		(\$1,808,013)		(\$1,000,000)		(\$3,784,394)		4.4%
Operational and Organizational Changes	(\$5,275,668)		(\$1,627,087)		(\$38,048)		(\$6,940,803)		8.1%
Capital Projects and Infrastructure	(\$1,257,664)		(\$1,101,416)		(\$500,000)		(\$2,859,080)		3.3%
Maintenance Reductions	(\$518,385)		(\$2,000,706)				(\$2,519,091)		2.9%
Materials, Supplies and Equipment	(\$3,903,203)		(\$876,121)				(\$4,779,324)		5.6%
Recreation Services	(\$751,135)		(\$1,120,725)		(\$42,430)		(\$1,914,290)		2.2%
Library Services	(\$846,876)						(\$846,876)		1.0%
Public Safety Support and Related Services	(\$3,656,426)		(\$2,289,036)		(\$2,777,709)		(\$8,723,171)		10.1%
Public Safety Emergency Services	(\$146,676)		(\$1,300,000)				(\$1,446,676)		1.7%
Arts and Cultural Programs	(\$780,858)		(\$300,000)				(\$1,080,858)		1.3%
Communication, Promotions and Special Events	(\$197,441)		(\$213,708)				(\$411,149)		0.5%
Business Services and Attraction	(\$312,215)						(\$312,215)		0.4%
Code Enforcement	(\$184,402)		(\$507,931)				(\$692,333)		0.8%
TOTAL EXPENDITURE REDUCTIONS	(\$29,243,986)	-193	(\$31,444,801)	-220	(\$10,375,699)	-74	(\$71,064,486)	-487	82.7%
Return on Assets & Marketing Opportunities	(\$4,520,000)						(\$4,520,000)		5.3%
New Fees or Taxes	(\$790,000)		(\$3,830,000)				(\$4,620,000)		5.4%
Existing Fees or Taxes	(\$5,770,000)						(\$5,770,000)		6.7%
TOTAL REVENUE ADJUSTMENTS	(\$6,560,000)		(\$3,830,000)				(\$10,390,000)		12.1%
Impact to Structural Deficit	(\$40,323,986)		(\$35,274,801)		(\$10,375,699)		(\$85,974,486)		100.00%
One-time Revenues/Transfers	(\$2,625,000)		(\$3,925,000)		(\$3,925,000)		(\$10,475,000)		
Total Cost/Revenue Adjustments (including one-time)	(\$42,948,986)		(\$39,199,801)		(\$14,300,699)		(\$96,449,486)		
Carry-over Fund Balance	(\$2,652,414)		(\$176,201)		(\$75,687)				
STRUCTURAL DEFICIT REMAINING	\$11,676,014		\$6,401,213		\$4,025,514				

5.1.1 General Administrative and Management

Reductions in management and administrative staffing throughout the organization make up a significant portion of overall cost reductions in the proposed Plan. These reductions equal approximately **13.2 percent** of the overall plan solutions, totaling **\$11.3 million** in reduced expenditures. Management staffing would be reduced by close to 25 percent, or approximately 48 positions in General and related fund programs over the next three years, with an estimated \$5.3 million in savings. Reorganization and consolidation of department responsibilities will be required to achieve this significant reduction in staffing, single focus management positions will have to be collapsed with other managerial responsibilities. Some examples include consolidation of administrative oversight with marketing and customer relations' responsibilities, and combining accounting oversight with budgeting functions.

Administrative support staff would also be dramatically reduced during this period, requiring an increasing workload for remaining staff. In some cases, work previously performed will have to be deferred. It is anticipated that reductions in this area will result in increased response times to requests for information and special studies. Ad hoc analyses currently performed on a routine basis will have to be delayed if not a high priority, or deferred altogether. In addition, memberships in professional organizations, attendance at conferences and administrative supply budgets will be significantly reduced. Increasing the use of technology will be explored to help offset the impact of the proposed administrative reductions including use of the internet and automated phone systems for conducting City business. Organizational consolidation and elimination of overlapping responsibilities will also play a critical role in reducing staffing levels.

5.1.2 Employee Compensation, Benefits and Work Practices

The most significant spending reductions proposed are in employee compensation and benefits, reflecting input received through the community survey. These cost reductions apply to management as well as non-management staff. Reduced costs in this area make up **27.2 percent** of the overall planned budget curtailment and total **\$23.4 million** over the three-year period. The proposed reductions in this category total approximately 10 percent of current General Fund salary, wage and benefit costs.

It is also recommended that the City implement a new non-safety employee retirement plan where lower retirement benefits will be provided to new employees. Though the community survey related a general desire to rescind recent retirement enhancements granted to employees, State law prohibits the City from unilaterally reducing the pension benefits of existing employees. A new retirement plan tier is not expected to generate savings of consequence for the next three years, but it will save the City money later this decade.

Staff has previously discussed, in public session, that the primary cause of the City having to make payments to CalPERS again (approximately \$36 million beginning in FY 05) are the unprecedented investment losses experienced by CalPERS. The recently approved benefit increases for public safety and miscellaneous employees contributed to the cost, but investment losses by CalPERS is the primary reason that the City will soon no longer be superfunded. Long Beach is not alone in this predicament. Cities and other government agencies throughout California have been notified by CalPERS that their payments will be increasing dramatically; in many cities, those cost increases are immediate.

Staff from the Department of Financial Management has scheduled meetings between a coalition of public agencies, chaired by the City of Long Beach, and CalPERS to determine if there are options available to minimize, reduce or defer these unexpected CalPERS costs for all cities. The City may wish to pursue legislative remedies should these discussions with CalPERS be unsuccessful.

Further, the safety employee (Police, Fire and Lifeguards) pension plan offered by the City is now common to many municipalities in the State. A reduction to their pension benefits would put the City at a competitive disadvantage with other agencies in attracting and retaining public safety personnel, and therefore is not advisable at this time.

Since reducing pension benefits is not an immediate option, and introducing lower costs benefit tiers will not provide the immediate relief needed, the only viable option is for employees to support a much larger share of their pension and health benefits and, or, take wage reductions, cut backs in skill pays and reduced overtime. Reductions in this area are subject to negotiation with labor unions; therefore, the exact composition of the reductions cannot be specified at this time. Information from the outside compensation and staffing survey, which should be completed by April 2003, should play a key role in future labor negotiations. As previously communicated, there will also be no across-the-board management compensation increases this fiscal year.

The City and its employees have contributed to the pension plan in varying amounts over the years. Pension fund contributions are generally categorized into an employer and an employee share. Current City union agreements require the City to pay the employer share of the pension contributions, as well as the full employee share for public safety employees (9 percent of salary) and 7 of the 8 percent employee share for all other employees. Employees paid the employee share of the pension contributions until 1980, at which time the responsibility began to shift due to MOU negotiations to the City. Refer to **Attachment 6** for a brief historical summary of the pension plan.

Employee compensation and benefit cost reductions will likely impact the City's ability to retain and attract employees in the future. Implementing these reductions will require a close working relationship with labor unions and employee representatives. The City's employees share responsibility for the solutions needed to preserve core service functions within the City. The financial plan contains many changes that will bring about

dramatic impacts for City provided services. Should the proposed reductions in compensation and benefits not be implemented to the extent needed, further reductions in services, widespread job losses, including sworn staffing levels, will be unavoidable.

5.1.3 Contracting Opportunities

Past experience with contracting of services has proven to be an effective means of reducing costs without negatively impacting service levels. While not all services are good candidates for contracting, experience in landscape, custodial, and security services have proven to be very successful, and have generated millions of dollars in savings while providing a higher level of service. Though not a panacea, a reasonable level of contracting-out, combined with other approaches outlined in this plan, will help to solve the budget deficit in meaningful ways.

This area of the Plan recommends further contracting in the areas mentioned above over a three-year period. Some additional contracting-out would be initiated in FY 04, but a significant amount of the additional services would not be contracted until FY 05. This would allow time to attempt to transition as many individuals as possible to other positions and develop detailed specifications to ensure effective service delivery.

The Plan includes **\$3.8 million** in savings over the three years and makes up **4.4 percent** of total savings included in the Plan. Savings would be realized through contracts for reprographic services, landscape maintenance of street median islands, custodial services in City facilities, weed abatement functions, further contracting of park maintenance, facility maintenance functions in various departments, and surveying services.

In addition to the savings identified in the Plan, a number of in-depth studies are recommended for service assessment that may result in further contracting-out or contracting-in opportunities. These include information and technology services, fleet maintenance, towing services, parking enforcement, helicopter maintenance, billing and collection services, business license processing, and street sweeping services. Section 6 provides further detail on service assessment recommendations.

Using a multi-year, planned approach, when implementing service contracts is recommended so that individuals currently performing these functions can be transitioned to openings in other areas in the City or with the contractor selected.

5.1.4 Operational and Organizational Changes

Operational and organizational modifications are another major component of the Plan. This area accounts for approximately **8.1 percent** of the total three-year recommended options at approximately **\$6.9 million**, with most of the changes proposed for the first fiscal year of the plan (FY 04). This category includes a number of different options to minimize costs, maximize resources and enhance efficiency and effectiveness of City operations.

Examples of operational changes in FY 04 include renegotiating contracts with other agencies to lower operating costs, reorganization of customer service representatives to perform necessary tasks with less personnel, and finding creative and innovative funding sources to relieve General Fund costs and generate full cost recovery from other City agencies. A reduction of centralized technology support services for City departments is also being proposed with reductions in computer server support, network management, email services, Internet and Intranet development and support, applications development, and other support functions.

Operational and organizational changes may impact current service levels and internal City functions, but will result in significant cost savings. Many of these reductions will affect departments Citywide, such as the reduction in computer support functions. Still, other changes may result in higher administrative workloads for some departments. The main goal of operational and organizational modifications is to reduce operating costs so that the most core and critical services receive priority. This means that other “nice to have” services and internal operations may have some funding diverted to higher priority services. It is also recommended that in-depth reviews of specific areas with overlapping functions take place in the coming months including: code enforcement, information and technology services, communications and promotion functions and neighborhood service functions. Section 6 of this report provides further detail regarding service assessment opportunities.

5.1.5 Capital Projects and Infrastructure

The City is committed to maintaining its infrastructure, and providing proactive maintenance to prevent accidents and expensive emergency repairs. The City currently reviews infrastructure maintenance needs regularly, and addresses these issues before they become potential problems. Due to the severity of the budget deficit, the City may need to shift into a more reactive mode. Some preventative City infrastructure maintenance could be deferred or reduced to provide a structural cost savings. Savings recommended in this area total **\$2.9 million** and make-up approximately **3.3 percent** of the overall savings in the three-year plan.

Examples of these infrastructure reductions include reducing the contract for gas pipeline replacement work, deferring non-critical maintenance on gas equipment, less frequent structural maintenance at parks facilities, reducing resources for mini-park development, and delaying enhancements to the wireless communications system used by City departments and several outside agencies. In addition to deferral of preventative maintenance, staff are exploring alternative funding sources for existing capital projects, which may provide opportunities to fund critical infrastructure needs not currently being addressed, such as alley maintenance and improvements. These alternative funding sources may also relieve \$1,000,000 in General Fund support to capital projects in FY 05 and FY 06, while keeping priority infrastructure projects funded at the current levels.

There are only a limited number of reductions in this area, since delaying or deferring maintenance only extends the problem into future years and will eventually result in higher costs. The community survey results also indicated that the public supports funding for City facilities, streets and sidewalks. Critical capital improvement projects such as Americans With Disabilities Act (ADA) projects and the Sidewalk Improvement Program are not recommended for reduction; however, other CIP projects may be suspended to allow for additional savings in the General Fund. Staff believes that the proposed reductions mentioned above will have a relatively minor impact at the present time, while generating significant cost savings.

5.1.6 Maintenance Reductions

The City takes pride in having well maintained City facilities, parks, and clean and safe City-owned property. However, some maintenance reductions will be required as part of the Three-Year Financial Strategic Plan. Recommended maintenance reductions totaling **\$2.5 million** make-up **2.9 percent** of the financial plan savings. Maintenance reductions include less frequent grounds maintenance at parks, Ranchos and undeveloped City lots starting in FY 04. The City will still provide these services, but the frequency with which they are provided will be reduced.

Another significant opportunity for cost savings is dramatically reducing the capacity of in-house maintenance, modification and repair of City facilities. Significant reductions in painting, plumbing, HVAC, electrical and carpentry are proposed in FY 05. The reduction of these services would have an impact not only on City facilities, but also on the City's ability to service public safety support efforts and special projects throughout the City. Improvements in these areas will have to be included in the annual Capital Improvement Budget with defined funding sources.

5.1.7 Materials, Supplies and Equipment

In keeping with the philosophy of reducing overhead, it is recommended that the City implement a significant reduction in materials, supplies and equipment that are not critical to core service delivery. Staff recommends that the City reduce these expenses by approximately **\$4.8 million** over the next three years, which makes up approximately **5.6 percent** of the overall savings.

Examples in this category include substantially fewer cell phones and pagers for City staff, and a large reduction in office supplies, furniture, reprographics and computer equipment. Significant cost savings can also be achieved by reducing the City's light-duty fleet by approximately 400 vehicles and the heavy-duty fleet by 60 vehicles over the next three years. The City will rely more heavily on the use of auto allowance and the mileage reimbursement program to compensate employees for the use of their private vehicle for City business, rather than rely on a large City fleet.

Employees will be encouraged to continue to use older equipment and fewer supplies whenever possible, find alternatives to printing large quantities of documents and defer purchases of computer equipment as long as possible. Possible impacts of these reductions include fewer publications for public use, heavier reliance on electronic mail and computerized documents and slower and less capable computer systems. These reductions may run counter to the recommended reduction in management and administration staff since, as the City reduces its administrative personnel, it will need to become more dependent on technology to perform the required tasks. Staff will have to balance the investment in future technology and equipment against reducing staffing levels to ensure that the best options are identified.

5.1.8 Recreation Services

The Parks, Recreation and Marine Department (PRM) developed and matured into a nationally recognized organization that provides extensive recreational services to community members of all ages and economic groups, through both supervised and unsupervised recreation programs.

This area of the Plan accounts for approximately **2.2 percent** of the total three-year solution at approximately **\$1.9 million**. The recommended reductions in recreation services in FY 04 include paring down recent program enhancements such as the Environmental Stewardship Program, and curtailing staffing and services supporting some youth, teen, adult and senior activities. The affected services and programs could include nighttime availability of sports facilities and programs, the Teen Volunteer Program, Senior Olympics, Roller Hockey, Pools of Hope and adult sports.

In FY 05, reductions would impact programming at both Ranchos, curtail adaptive recreation, suspend staffing at smaller park sites, eliminate staff support for the Club on the Green Senior Center, contract or eliminate two day camps, suspend the Mobile Skate Park Program, reduce recreation programs at school sites, suspend the art programs at Miracle Park, reduce by 50 percent available free youth sports programming, and eliminate Season II of Midnight Basketball. In FY 06, it is recommended that PRM reduce programming levels in the Discover Long Beach Program, an educational nature program provided to selected elementary students in the LBUSD.

5.1.9 Library Services

This area accounts for approximately **1.0 percent** of the three-year solution, creating approximately **\$847,000** in cost reductions to the General Fund. Recommended reductions in FY 04 focus to the greatest extent possible on reductions in operating expenses and staffing, to minimize impacts to direct library services. The materials and book purchase budgets will be lowered to prior year levels, reversing a recent enhancement.

Curtailment of some library services will be unavoidable in FY 04; however, by closing the Main Library and Bayshore branch on Sundays and reducing evening hours at the El Dorado and Los Altos branches.

In an effort to generate further savings, it is recommended that a system of rolling neighborhood library closures be implemented to allow Library Services to further reduce operating and staffing costs without permanently closing branches. A system of rolling closures would keep ten of eleven neighborhood libraries open 4 days per week, while the eleventh library would continue to be open 6 days. This is preferred over the outright closure of one or two branches, which would leave geographic areas completely un-served. The schedule of closures would be geographically planned to provide patrons the opportunity to go to an alternate nearby location on the day their neighborhood branch is closed.

5.1.10 Public Safety Support and Related Services

Services related to the support of public safety span several departments. While these services are not considered as critical as the City's emergency response services, they are considered important for the long-term safety and health of the community. This area accounts for **10.1 percent** of the three-year solution, at approximately **\$8.7 million**. Since Public Safety makes up over 60 percent of the General Fund Budget and every effort was made to minimize the impact of reductions on emergency services, support services were the only viable alternatives for cost reductions.

The Police Department is committed to focus sworn officers on responding to calls for service, and to that end 48 officers are being reassigned from support functions back into the Patrol Bureau. This action will serve to reduce overtime costs and will put additional police officers on the street, above and beyond the 36 additional officers being added through the recently accepted COPS grant. This will be achieved by reconfiguring numerous other services including Support and Planning, Accident Incident Detail, Communications, Youth Services, DUI Detail, Internal Affairs, Court Affairs, Administration and DARE. In addition, support services such as the Police Athletic League (PAL) and graffiti abatement teams may be substantially reduced or eliminated in FY 06. The net impact of these shifts will be a streamlining of police support operations, although a reduction in the level of programs aimed at promoting crime prevention will be inevitable. Some of the functions previously provided by specialty details will be incorporated into the daily duties of patrol such as juvenile investigations and graffiti abatement.

It is also recommended that other departments providing public safety support activities, including Health and Human Services (through reduced animal control staffing in FY 04) and Parks, Recreation and Marine reduction in the Park Ranger Program and suspension of staffing support to PAL in FY 06 reduce service levels in these activities.

In addition, the responsibility for school crossing guard services is recommended for transfer to the Long Beach Unified School District (LBUSD). The City can simply not afford to subsidize LBUSD for this program. This could be done gradually over the three-year period to provide LBUSD time needed to put its funding in place and/or to develop a volunteer program. The funding shift would take place in FY 05 and FY 06. There should be no impact on service delivery; however, the shift will allow the Police Department to focus on its core goals and activities related to fighting crime.

Because budgets for sworn personnel were not considered for reductions at this time, Police Department workforce reductions come from the civilian side of the organization, in both clerical and community relations functions. To the extent that essential work is being performed by non-sworn positions that are eliminated to contribute to savings, there will likely be a significant impact on the capacity of the sworn staff to perform their duties in an efficient and effective manner. The measured reduction in overtime usage must also be accomplished.

5.1.11 Public Safety Emergency Services

The effective delivery of public safety emergency services has been the number one priority for the community. This opinion has been reinforced through the 2010 Strategic Planning process as well as the "Voice Your Choice" survey process. Responsiveness to public sentiment is reflected by the annual budget allocations received by both the Fire and Police Departments.

While the level and effectiveness of emergency services provided by the City are excellent when measured by response time, there are several areas within these operations where changes may generate savings without compromising service delivery. Reductions in this area account for approximately **1.7 percent** of the three-year solution, at approximately **\$1.4 million**. In FY 04, a comprehensive outside review of the fire service should be performed. Given the high costs associated with providing fire service as the City does currently, the City must evaluate whether potential savings could be realized by restructuring service delivery methods, including staffing levels, location and the number of fire stations. Based upon the results of the fire service review and in light of the budget dilemma, in FY 05 the City may be forced to close certain fire stations, reduce apparatus staffing, eliminate rescue companies and possibly consolidate police and fire emergency dispatch functions. Modest savings have been included in FY 05 for anticipated cost reductions associated with service assessments in emergency services.

5.1.12 Arts and Cultural Programs

General Fund support for the arts will need to be significantly reduced over the next three fiscal years. This staged approach to reducing such funding will allow these organizations time to adjust their operations and to work toward increasing their fund-raising capacity. This area accounts for approximately **1.3 percent** of the Plan, at approximately **\$1.0 million**. This represents a 30 percent reduction in this service area.

In FY 04, the General Fund allocation to the Public Corporation for the Arts (PCA) should be reduced by 40 percent. In addition, the enhanced funding to the Long Beach Museum of Art will be reduced to FY 02 funding levels, and the Municipal Band concert series should be shortened from 8 weeks to 6 weeks of performances. Furthermore in FY 04, funding for specialized International City Theatre Youth Theater (ICT) programs and Folklorico dance groups would be eliminated. (The City should work with private funding sources and other entities to identify replacement funding for these programs.)

In FY 05, the PCA budget would be reduced by another 36 percent, reducing General Fund support for the PCA to \$350,000, the funding level provided in the late 1980s.

5.1.13 Communication, Promotions and Special Events

This area accounts for approximately **0.5 percent** of the Plan, at approximately **\$411,000**. The Three-Year Financial Strategic Plan recommends consolidation of communication and promotion efforts throughout the City. Reductions are anticipated in the number of Public Information Officers and consolidation of overlapping functions with the ultimate goal of improving communication with the public by streamlining and simplifying modes of communication. A reduction in the number of City publications and the size of existing publications such as the WAVE and Parks, Recreation and Marine's schedule of classes will most likely result, but it is anticipated through careful planning, the use of technology and consolidation of resources, the City will maintain open lines of communication with the public.

In addition, an in-depth review of communication, promotion and special events will facilitate the development of a rational plan for reducing costs without undermining the City's attempts to better communicate with the community. Furthermore, increasing efforts to support advertising sponsorship and marketing programs is also recommended to generate additional revenues.

City staffing of special events and City Council community/safety fairs often performed on overtime, will also be eliminated. Event organizers will either have to pay the full cost of City services or contract with private operators where appropriate.

5.1.14 Business Services and Attraction

The City's economic development policy is to retain existing businesses, and to attract new ones to the City. Desired businesses include those that meet our citizens' needs by providing employment opportunities and a diverse mix of services and products. As the results of the survey demonstrated, business services and attraction is one of the most valued services the City provides. The City's 2010 Strategic Plan further emphasizes the importance of having a proactive economic development effort. Therefore this area represents only **0.4 percent** of the Plan, at approximately **\$312,000**.

Customer service within Public Works for subdivision maps and development agreements should be considered for reduction, along with eliminating the Community Development Department's Business Technology Division (BTD). The BTD was envisioned to spur technology business growth in the City during the dot.com boom. Due to the massive downsizing of that sector over the past two years, the BTD was never fully implemented. This reduction will allow Community Development to focus on other primary City economic development priorities including development of small neighborhood businesses, continued growth in tourism and related support service companies, and attracting and retraining trade-oriented companies.

In addition, later this month the City Manager's Office, Community Development Department and Economic Development Commission will be updating the City Council on the need for a comprehensive Economic Development Strategic Plan, as called for in the 2010 Strategic Plan. The development of the Economic Development Strategic Plan will involve a broad cross-section of community and business input and that, when completed, will provide Long Beach with a comprehensive, long-term vision for the balanced economic development of Long Beach.

5.1.15 Code Enforcement

There are a myriad of code enforcement services managed by several City departments, and proposed reductions in this area represent approximately **0.8 percent** of the Plan, equaling approximately **\$692,000**. The Three-Year Plan recommends an immediate study of the various functions performed in this area, including enforcement efforts in the City Manager's Office, the Planning & Building Department, the Community Development Department, the City Prosecutor's Office, the City Attorney's Office, the Health Department, the Fire Department and the Department of Financial Management. Technical complexities inherent in this program category dictate that the services provided are carefully studied prior to implementing extensive changes. There are, however, several suggestions for immediate service revisions in FY 04 including coordinating the Neighborhood Nuisance Abatement Program in the City Manager's Office with the City Prosecutor's Office, and the elimination of three building inspectors in the zoning and weed abatement programs.

In FY 05, following the study of this area, it might be recommended to consolidate and streamline code enforcement efforts to generate savings where possible. If sufficient savings cannot be identified through consolidation of services, reductions may be required in City-provided weed abatement and Community Code Enforcement efforts.

5.1.16 Return on Assets and Marketing Opportunities

Transfers from several other funds, such as the Gas and Towing Funds, have been used on an ongoing basis for a number of years to balance the General Fund budget. The following additional options, among others, are being evaluated for possible implementation beginning in FY 04:

- SERRF profit transfer
- New City marketing opportunities
- Recoup full cost of Signal Hill fire services agreement
- Gas Fund transfer (increase in recurring transfer)

These assets and marketing opportunities would generate approximately **\$4.5 million** in FY 04, or **5.3 percent** of the structural deficit.

5.1.17 New Fees and Taxes

As is evidenced by the level to which cuts are being proposed, cost reductions are the primary means suggested to solve the budget deficit. Increases to fees and taxes were sought at the point in the BEP where it became clear that additional cuts to programs and services would be excessively severe. This category includes fees or taxes not currently being collected by the City. New fees generally require City Council approval, while new taxes require voter approval.

In many of the options identified, revenue increases are designed to bring a fee or tax to levels comparable to surrounding cities and/or to recoup the actual cost of the service provided. No new fees or taxes are proposed to take effect in FY 03.

The following options, among others, are being evaluated for possible implementation beginning in FY 04:

- Applying Business License Tax to businesses currently considered exempt
- Charging for certain preferential parking permits
- Applying a tax on natural gas produced by oil operators
- Establishing a private collection agency contract to recover lost towing revenue
- Charging an "After Hours Release Fee" for towed cars
- Levy a port container tax
- Assess a library tax dedicated to support the Library System
- Establish entertainment venue admission tax

The exact nature of these increases will be determined in the months that follow, as the City Council receives community input and deliberates on the Plan.

In addition, the following options, among others, are being evaluated for possible implementation beginning in FY 05:

- Charge for use of gas pipelines for fiber optics (pilot program in progress)
- Raise the Transient Occupancy Tax (TOT) on hotel room rentals by 2 percentage points
- Levy a parking fee on paid parking lots similar to other area cities

This area of the Plan includes **\$4.6 million**, or **5.4 percent** of structural deficit, in FY 04 and FY 05 for revenue from new fees and taxes. The exact nature of the fee and tax increases will be determined in the months that follow, as indicated in the previous paragraph.

5.1.18 Existing Fees or Taxes

Again, the BEP was not predicated on raising taxes or fees. Nonetheless, a number of existing City fees and taxes were evaluated by staff for possible increase should the City Council approve. Increases to either would require City Council approval, while tax increases also require voter approval. In many of these options, proposed increases will seek to bring the fee or tax up to a comparable market level with surrounding cities, or to recoup the actual cost of the service provided.

The following options, among others, are being evaluated for possible implementation beginning in FY 04:

- Civic Center parking rate increase
- Street sweeping parking violation rate increase
- Increase select other parking violation rates
- Business License Tax discount – sunset in December 2002
- Increase returned check fees to recoup costs
- Increase gas service re-connection fee to recoup costs
- Increase gas service establishment fee to recoup costs
- Utility late fee increase
- Oil production tax increase
- Increase number of adult sport teams and fees
- Business License Permit/Investigation fee increase
- Animal control fees increase
- Recreation swim fee increases
- Certain health clinic fee increases
- Towed vehicle storage fee increase

A combination of increases to existing fees and taxes mentioned above are considered feasible for FY 04 and are included in the Plan at approximately **\$5.8 million**, or **6.7 percent** of the structural deficit.

Increases to existing fees and taxes are not contemplated for FY 05 or FY 06.

5.1.19 One-Time Revenues/Transfers

One-time revenues are those that are not expected to be received on a recurring basis. An example would be the \$5 million received from Southern California Edison several years ago as part of the renegotiated franchise agreement. Transfers come from other City funds, primarily Internal Service and Enterprise funds, may be one-time or may be counted on for several years. In the current fiscal environment, new transfers from

other funds are being considered only due to the severity of the General Fund's budget situation. Before affecting a transfer, the fiscal condition of the fund making the transfer must be taken into account. The result of transferring from other funds is that equipment and capital replacement in these funds will be deferred, and it affects the ability of these funds to respond to unanticipated needs.

The following new or incremental one-time revenues and fund transfers are being considered:

- Transfer from General Services Fund
- Transfer from Employee Benefits Fund
- Airport Fund repayment to the General Fund
- Transfer from Insurance Fund
- Sale of City Hall East

A combination of the above is estimated to contribute \$2.6 million in FY 04, \$3.9 million in FY 05 and \$3.9 million in FY 06. These one-time transactions do not reduce the structural deficit but provide a more desirable option to severe budget reductions partially bridging the gap while the City restructures its budget.

The City Council designated \$35 million Emergency Reserve was not used as a funding source in this proposed plan.

5.2 Options to Financial Plan Recommendations

While developing the three-year plan, it was important to not only come up with a plan to address the structural deficit facing the City but to provide additional options if some of the proposed alternatives are not acceptable. As such, City staff is developing a list of options for consideration and expects to have them available during the March budget workshop. Although the items identified in the proposed Three-Year Financial Strategic Plan are not pleasant, options identified may be even less desirable. Nonetheless, they will be potential options to consider.

It is the goal of City staff to continue to provide the City Council with all available options and as many creative ideas as possible. As recommended operational reviews are completed, it is anticipated that further options may be developed (see Section 6 for a list of recommended studies.)

6.0 AREAS FOR SERVICE ASSESSMENT AND OPTIMIZATION

In developing the Plan's recommendations and options, it was clear there were a number of areas that had potential for significant cost savings but required a more thorough review and analysis of potential opportunities for restructuring service delivery.

6.1 Services Considered for Contracting-In/Contracting-Out

The areas highlighted below were identified for possible contracting-in or contracting-out of service delivery. Contracting-in work from outside agencies could help offset fixed costs associated with operations, while contracting-out service delivery with a private operator could reduce ongoing operating costs and in some cases increase service efficiency. Areas which could be considered, include:

- Fleet Vehicle Maintenance
- Parking Enforcement Operations (citation issuance and billing and collections)
- Weed Abatement *
- Landscape and Street Median Maintenance *
- Custodial Services *
- Helicopter Maintenance
- Towing Operations *
- Reprographic Services*
- Information and Technology Services*
- Billing and Collection Functions
- Business License Processing
- Street Sweeping

* Partially Contracted Already

6.2 Services Considered for Optimization

In addition to evaluating areas for potential contracting opportunities, a number of current operations and practices were identified as good candidates for potential redesign of service delivery or consolidation of functions. A number of these service areas would benefit from an outside review due to required expertise and objectivity. With the potential for significant cost reductions that could be generated, it is recommended that these reviews be undertaken immediately using savings generated through retirements during the current fiscal year. These include:

- Review of Compensation and Staffing (currently underway)
- Review of City Workers' Compensation, Risk Management and Occupational Health Functions and Costs
- Code Enforcement and Inspection Services
- Fire and Police Dispatch Consolidation
- Fire Service Level Review

In addition, staff will be directed to conduct operational reviews in the coming months to determine if additional savings/revenues can be generated, or services improved, by restructuring service delivery in the following areas:

- Meter Reading and Billing Cycles
- Consolidation of Contract Management Functions
- Video Production Services
- Neighborhood Services
- Information and Technology Services
- Communication and Marketing Functions
- Citywide Employee Safety Program
- Surveying Services
- Geographic Information System (GIS) Service Provision
- Citywide User Fee/Cost Recovery

While the reviews recommended above are an important part of the budget evaluation process and could result in significant savings in the future, it is important to continually assess service delivery methods to improve organizational effectiveness. The Long Beach Plan provides a good foundation for performance evaluation in the future and will create an ongoing feedback mechanism to evaluate City services.

7.0 TRANSITION STRATEGY FOR IMPACTED EMPLOYEES

One of the first actions taken in response to the budget challenges facing the City was the implementation of a hiring freeze. Vacancies maintained through the hiring freeze are not only generating savings to carry forward into the next fiscal year, it is also creating opportunities to accommodate employees impacted by recommended budget reductions. As a result of the serious efforts made in supporting the hiring freeze, over 400 positions are currently being held vacant throughout the organization. Staff will be carefully reviewing current vacancies and comparing these to proposed reductions in staffing recommended in the Plan, to develop a transition plan for impacted employees. It is anticipated that a significant number of employees can be moved into vacant positions or retrained for opportunities in other areas in the City. A commitment has been made that “no one will be left behind” in this process.

7.1 Federal/State Resources Available through Workforce Development

Through Workforce Investment Act grants and an anticipated National Emergency Grant that the State is submitting on behalf of public agencies throughout California, many resources will be available through the Career Transition Center to assist City employees impacted by the recommended changes in service delivery. These include support for workshops, retraining, education assistance, career counseling, general job searches and general support services.

7.2 Transfer and Retraining Employees

As budget service reductions are finalized, the City, through the Human Resources Department and the Civil Service Department, will address transitioning employees within the City as much as possible. Staff is developing a plan to facilitate the transfer of employees within the City organization to vacant positions that match their existing skill sets. In addition, for employees willing to learn new skills or trades, opportunities will be made available for retraining employees for positions requiring different skills through Workforce Development efforts and available grant funds. While every effort will be made to retain employees within the City, the Career Transition Center will assist employees' transition to opportunities outside the City if sufficient positions cannot be identified within the organization.

8.0 CITY COUNCIL-REQUESTED REPORTS

8.1 Funding for Council Priorities

The City Council has requested that staff identify options in order to fund \$2.4 million for the following City Council district priorities:

Code Enforcement Team

In the area of Code Enforcement, an immediate citywide study of code enforcement activities is recommended. It is expected that through reorganization of responsibilities and enhanced use of existing resources, code enforcement efforts can be improved while reducing the cost of this program.

Park Ranger Expansion

Without a dedicated funding source the Park Ranger Program cannot be expanded. Furthermore, the Plan recommends reducing the Park Ranger Program in Fiscal Year 06, though overall staffing will still exceed FY 01 levels by 30 percent.

Pocket Park Expansion

Again, without a dedicated funding source for park development, expansion of the pocket park program will require community support and funding.

Youth Commission

Parks, Recreation and Marine and Community Development have committed to develop the Youth Commission concept within their existing budget allocations.

Alley Sweeping and Improvements

Staff recognizes that alley maintenance and improvements are a high-priority for the community. It is recommended at this time that \$500,000 be allocated in the FY 04 budget to begin to address alley maintenance and improvements Citywide. Staff is researching the potential to use existing transportation funding for such efforts.

Beyond that, there has been some discussion of incurring additional General Fund debt to finance infrastructure repair, improvement and construction; in other words, borrowing money. This may make sense when two situations exist, at the same time:

1. The budget is balanced; that is, ongoing revenue is sufficient to support increasing debt costs; and,
2. New ongoing revenue is available to pay the new ongoing debt payments.

Given the current fiscal situation, incurring additional debt is not recommended unless a new source of funds to make bond payments is identified, such as assessments or General Obligation taxes. Recent borrowings, for example, to fund public safety facilities have exacerbated the City's fiscal dilemma, since there was no new revenue available to fund the annual bond payments. Len Wood reinforces this policy in his

book *Dollars & Sense*, when he cautions that “You cannot borrow your way out of a fiscal crisis.”

The prudent course of action is to prioritize specific City Council needs along with all other City programs. Those programs that fall to the bottom of the priority list could be eliminated or budgets reduced and/or fees or taxes increased to fund higher priority programs.

Homeless Services Assessment Study

The Homeless Services Assessment Study has been initiated with Community Development Block Grant support.

Facility Centers Assessment

Existing funding for park and library facility assessments will also support a physical condition assessment of the existing facility centers. Unfortunately at the present time, inadequate funding is available for a full-scale community needs assessment. Health and Human Service Department staff will continue to try and identify a funding source for such a study.

8.2 Status of Fund Balances

The City Council requested staff to periodically report fund balances for the General Fund, as well as the Special Advertising and Promotion, Fleet Services, General Services, Insurance, Gas and Towing funds. In response to requests by the City Council to provide a comprehensive disclosure of fund balances, **Attachment 7** was designed to report all components of fund balance.

The attachment provides a detailed listing of each fund’s projected September 30, 2003 ending fund balance. It further breaks down amounts that are unrestricted, designated as restricted by the City Council (e.g. Emergency Reserves, Bus Shelter Revenue for North Long Beach PAL, etc.), and those that are legally restricted (e.g. City Charter, bond covenants, asset seizure funds, etc.) The columns on the attachment show the amount projected based on the City Council adopted FY 03 budget, the amount projected taking into account City Council approved adjustments to the FY 03 budget, and the amount projected taking into account revenue and expenditure estimates to close FY 03.

8.3 Status of Previous Revenue-Generating Ideas

Attachment 8 is a list of revenue generating ideas put together in the spring of 2001 by the City Manager’s Executive Management Team. A few of the ideas have or are being acted upon, but many of them were deemed infeasible. Examples of some ideas that are coming to fruition including City’s marketing program and renegotiation of the Signal Hill fire services contract.

8.4 Funding Alternatives for Parks & Recreation Operations and Development

New funding for construction and maintenance of pocket parks has not been identified to date. City staff have sought grant funding sources, but those identified are available only for larger parks. Pocket parks are normally small lots that need turf, playground equipment, irrigation, etc. Staff will continue to search for funding and will report back as funds are identified. Pocket park funding, if so desired by the City Council, should be added to the BEP and taken into consideration along with other budget options.

In addition, with regard to Citywide needs for additional parks in general, staff is investigating tax and assessment revenue options. Both would require voter approval.

9.0 NEXT STEPS AND ONGOING ACTIVITIES

The City Manager's Executive Management Team reviewed thousands of ideas submitted by the public and City employees, which serve as the basis of this proposed three-year financial plan. The delivery of this plan to the City Council is just the beginning of the longer-term effort to achieve a sustained solution to the City's budget challenges. Several key steps and activities should be initiated to consider and implement recommendations contained in this plan. Suggested steps include the dissemination of the community survey results along with the recommendations contained herein, the initiation of selected operations reviews and the development of an employee transition strategy.

9.1 Further Dialogue and Deliberation

Continued dialogue and deliberation are critical next steps in this Budget Evaluation Process. Clear and timely feedback regarding work performed to date is essential to encourage further input needed for informed decision-making. City staff will employ several avenues to disseminate the results of the community survey and the details of the plan, with the intention of continuing the vibrant dialogue initiated through the Budget Evaluation Process. The first such step will be a press briefing, scheduled for January 8, 2003, to provide details of the community survey results and the draft plan.

The community survey results will be available at many City facilities. As with the survey itself, the results will be published in English, Khmer and Spanish. It will also be distributed to all of the community and business groups with whom City staff met or communicated with in November 2002. In addition, the results will be posted on the City's Internet web page later this month, and will include both the computed results and the other ideas/comments.

In addition, a budget workshop has been scheduled for staff to formally present the final Plan recommendations to the City Council on Tuesday, January 28, 2002. Staff suggests that, following the workshop, the City Council consider scheduling time for formal deliberations on this plan, as well as options brought forth by the Budget Advisory Committee.

Community workshops have been planned during the month of February, culminating in a unifying Town Hall meeting on March 1, 2003, to provide an opportunity for community discussions and input regarding the City's budget. Shortly thereafter, the City Council could conduct a series of budget planning sessions focused on various cost reduction and revenue generation options in terms of the areas listed in the Plan. Due to time constraints, City staff will need to begin assembling the FY 04 budget in March 2003, but will incorporate the solutions from the adopted three-year financial plan at the conclusion of the City Council's budget planning workshops. Council feedback and Plan endorsement or modification will be needed by April 2003 to allow staff adequate time to prepare the FY 04 Proposed Budget. A recommended schedule of community workshops can be found in **Attachment 9**.

9.2 Initiate Immediate Operations Reviews

Several operations reviews should be initiated immediately to provide clear, objective guidance for potential changes in the following areas: Compensation and Staffing (already underway); Workers' Compensation, Risk Management and Occupational Health; Code Enforcement/Inspection; Fire and Police Dispatch; and, Fire Services. In addition, staff will continue developing options for consolidation of functions that will improve organizational efficiency. These reviews will be used to more accurately assess potential cost-saving opportunities that can be factored into future budgets, while also identifying possible ways to improve service delivery to the community. Funding for these efforts will come from savings generated through the hiring freeze.

9.3 Develop an Employee Transition Plan

A combination of community priorities and prudent public administration were the basis of the recommendations contained in this plan. While the results reflect a downsizing of the organization and movement toward a sustainable fiscal future, many employees currently providing services to the community will be impacted.

The Acting City Manager has made a concerted effort, through proactive policies and human resources administration, to mitigate the negative impacts and accommodate any employees displaced via the aforementioned budget and service reductions. The current hiring freeze has been maintained despite a high demand for hiring personnel the past few months. A transition plan must be developed to responsibly assist impacted employees. It is anticipated that the Transition Plan will articulate the means by which employees impacted by service curtailments or elimination will either be transferred into another department within the City, retrained where a skill-deficit exists and transferred into another area within the organization, or, in the worst case, released from the City. The Transition Plan will also provide processes by which employees leaving the organization will be provided extensive job transition resources, which will provide career management services, the opportunity for retraining, on-going education and support, and relocation services.

9.4 Ongoing Management of the Three-Year Financial Strategic Plan

While much work remains prior to Council's endorsement of the final approach for the Financial Plan, clearly the City's attention will be focused on progress made in achieving our objectives to reduce the structural deficit and monitoring changing economic conditions for years to come. With great uncertainty surrounding the State budget situation and the economy we will need to be positioned to change course and identify further options for reducing expenditures or enhancing resources at any time. As a result, it is recommended that a Budget Oversight Committee be formed to provide continuing feedback on the status of the City Budget, accomplishments of the Financial Plan and advice for future modifications to the Financial Plan if conditions change or recommended actions do not produce adequate savings or resources. In addition, with

over \$4.0 million in structural deficit remaining at the end of FY 06, further options will have to be developed if the economy does not dramatically improve over the next three years. The Budget Oversight Committee could provide the Council with informed advice on short notice. Such a committee might be composed of the City Auditor, the City Manager, the Director of Financial Management, a member of the Budget Advisory Committee, and an outside financial expert, possibly Mr. Wood.

The Three-Year Financial Strategic Plan represents a response to the challenge presented to staff by Mayor O'Neill and the City Council last August 2002, when the Mayor submitted her proposed FY 03 Budget. It lays out a rational and balanced approach to reducing the size of government and reduces the gap between on-going expenditures and revenues. While much work remains to be done, this process represents the beginning of a new way of managing the City's assets and delivering services. A recommended list and schedule of upcoming events is included in **Attachment 9**. It is anticipated that the open dialogue initiated during the past three months will continue as a means of managing City operations for years to come.